

# FISCAL NOTE

**Bill #:** SB0522

**Title:** Remove incentives from oil and gas production taxes

**Primary Sponsor:** Jim Elliott

**Status:** As Introduced

Sponsor signature

Date

David Ewer, Budget Director

Date

## Fiscal Summary

	<b><u>FY 2006 Difference</u></b>	<b><u>FY 2007 Difference</u></b>
<b>Expenditures:</b>		
General Fund	\$0	\$0
<b>Revenue:</b>		
General Fund (01)	(\$174,001)	(\$256,615)
State Special Revenue (02)		
Montana Infrastructure Reinvestment	\$16,462,575	\$33,365,948
Coal Bed Methane Protection Account	(\$222,068)	(\$451,391)
Research and Development Grants	(\$532,601)	(\$1,082,604)
Orphan Share Account	(\$532,601)	(\$1,082,604)
State University System	(\$478,439)	(\$972,509)
<b>Net Impact on General Fund Balance:</b>	(\$174,001)	(\$256,615)

☒ Significant Local Gov. Impact

☒ Technical Concerns

☐ Included in the Executive Budget

☒ Significant Long-Term Impacts

☐ Dedicated Revenue Form Attached

☐ Needs to be included in HB 2

## Fiscal Analysis

### ASSUMPTIONS:

1. This bill is effective January 1, 2006, and is applicable to production after December 31, 2005.
2. This bill removes all incentives from the production tax on natural gas, and all incentives from the production tax on oil except the stripper well exemption.
3. This bill changes the distribution of the state share of oil and gas production tax revenues. It establishes a new account in the state special revenue fund. The account is called the Montana Infrastructure Reinvestment Account. After distributing the Board of Oil and Gas Conservation (BOGC) tax and the counties allocation from total oil and gas production tax revenue, 37% of the remaining balance will be deposited in the Montana Infrastructure Reinvestment Account. The balance remaining after this distribution will be distributed as under current law to other state accounts including the general fund.

# Fiscal Note Request SB0522, As Introduced

(continued)

- Proposed law changes working share tax rates on the production of oil and gas, but does not change the BOGC rate or taxes on royalties.
- Oil and gas production taxes are reported and paid on a quarterly basis, with payment being due 60 days after the end of a production quarter. The fourth production quarter in the fiscal year (April through June) is accrued. Under proposed law, in FY 2006, oil and gas production in the third and fourth quarters will be taxed at the new rates.
- The table below illustrates differences in working share revenue under current and proposed law. The table shows revenue for the third and fourth quarters of FY 2006, and all of FY 2007.

Comparison of Working Share Oil and Gas Production Tax Revenue Under Current and Proposed Law									
Well Type	Production (mcf, bbls)	Price	Value	Working Share	Current Law Rate	Proposed Law Rate	Current Law Working Share Tax	Proposed Law Working Share Tax	Difference
-----Gas Production-----									
<b>FY 2006</b> New Vertical	11,747,805	\$5.02	\$59,013,505	\$49,974,211	0.76%	15.06%	\$379,804	\$7,526,116	\$7,146,312
(Qtrs 3 & 4) Post-99 Regular	28,203,925	\$4.93	\$138,990,286	\$116,535,152	9.26%	15.06%	\$10,791,155	\$17,550,194	\$6,759,039
Pre-99 Regular	5,162,621	\$4.91	\$25,359,402	\$21,516,059	15.06%	15.06%	\$3,240,319	\$3,240,319	\$0
Pre-99 Stripper	6,913,762	\$5.37	\$37,149,360	\$31,391,612	11.26%	15.06%	\$3,534,695	\$4,727,577	\$1,192,881
Total Gas Working Share Tax							\$17,945,973	\$33,044,205	\$15,098,232
-----Oil Production-----									
New Vertical	3,504,881	\$38.62	\$135,348,786	\$115,262,955	0.76%	12.76%	\$875,998	\$14,707,553	\$13,831,555
Post-99 Regular	6,059,230	\$38.41	\$232,725,619	\$198,432,783	9.26%	12.76%	\$18,374,876	\$25,320,023	\$6,945,147
Pre-99 Regular	3,738,677	\$37.03	\$138,453,326	\$117,683,188	12.76%	12.76%	\$15,016,375	\$15,016,375	\$0
Stripper 0-10 bbl/day	65,063	\$34.71	\$2,258,235	\$1,944,641	12.59%	12.76%	\$244,733	\$248,136	\$3,403
Stripper 10-15 bbl/day	171,148	\$34.71	\$5,940,265	\$4,857,623	12.59%	12.76%	\$611,332	\$619,833	\$8,501
Stripper Exemption	232,269	\$30.80	\$7,153,753	\$6,121,542	12.59%	0.76%	\$770,396	\$46,524	(\$723,872)
New Horizontal Recompletion	206,000	\$37.76	\$7,778,800	\$6,707,433	5.76%	12.76%	\$386,348	\$855,868	\$469,520
Horizontal Recomp Pre-99	215,042	\$37.76	\$8,120,239	\$6,926,880	12.76%	12.76%	\$883,870	\$883,870	\$0
Incremental Secondary	133,535	\$37.52	\$5,010,503	\$4,466,789	12.76%	12.76%	\$569,962	\$569,962	\$0
Total Oil Working Share Tax							\$37,733,890	\$58,268,144	\$20,534,254
Total Working Share Tax							\$55,679,863	\$91,312,349	\$35,632,486
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-----Gas Production-----									
<b>FY 2007</b> New Vertical	23,495,610	\$4.55	106,914,546	90,538,091	0.76%	15.06%	\$688,089	\$13,635,036	\$12,946,947
Post-99 Regular	67,917,941	\$4.46	303,189,949	254,206,878	9.26%	15.06%	\$23,539,557	\$38,283,556	\$14,743,999
Pre-99 Regular	8,600,926	\$4.45	38,270,964	32,470,810	15.06%	15.06%	\$4,890,104	\$4,890,104	\$0
Pre-99 Stripper	11,693,856	\$4.87	56,918,056	48,096,375	11.26%	15.06%	\$5,415,652	\$7,243,314	\$1,827,662
Total Gas Working Share Tax							\$34,533,402	\$64,052,010	\$29,518,608
-----Oil Production-----									
New Vertical	7,009,762	\$36.16	253,463,702	215,849,555	0.76%	12.76%	\$1,640,457	\$27,542,403	\$25,901,947
Post-99 Regular	16,052,974	\$35.95	577,102,763	492,064,897	9.26%	12.76%	\$45,565,209	\$62,787,481	\$17,222,271
Pre-99 Regular	6,228,636	\$34.57	215,349,809	183,044,010	12.76%	12.76%	\$23,356,416	\$23,356,416	\$0
Stripper 0-10 bbl/day	213,694	\$32.25	6,891,586	5,934,572	12.59%	12.76%	\$746,866	\$757,251	\$10,386
Stripper 10-15 bbl/day	511,703	\$32.25	16,502,315	13,494,690	12.59%	12.76%	\$1,698,307	\$1,721,922	\$23,616
Stripper Exemption	392,490	\$28.34	11,123,525	9,518,519	12.59%	0.76%	\$1,197,906	\$72,341	(\$1,125,565)
New Horizontal Recompletion	411,999	\$35.30	14,544,679	12,541,453	5.76%	12.76%	\$722,388	\$1,600,289	\$877,902
Horizontal Recomp Pre-99	592,893	\$35.30	20,930,714	17,854,714	12.76%	12.76%	\$2,278,261	\$2,278,261	\$0
Incremental Secondary	227,010	\$35.06	7,959,738	7,095,989	12.76%	12.76%	\$905,448	\$905,448	\$0
Total Oil Working Share Tax							\$78,111,257	\$121,021,813	\$42,910,556
Total Working Share Tax							\$112,644,659	\$185,073,824	\$72,429,164

- The FY 2006 difference in oil and gas production tax revenue is \$35,632,486.
- The FY 2007 difference in oil and gas production tax revenue is \$72,429,164.
- Under current law, the oil stripper wells and stripper exemption wells are taxed at 12.59%, a weighted average of the post-99 regular (9.26%) and pre-99 regular (12.76%) rates. This is because the stripper and stripper exemption rates are turned off due to high projected prices for West Texas Intermediate. Under proposed law, the stripper rates are 12.76% and the stripper exemption rate is 0.76%, with no triggers.

# **Fiscal Note Request SB0522, As Introduced**

(continued)

10. The table below shows the differences in FY 2006 and FY 2007 distributions to local and state accounts under current and proposed law.

<b>Comparison of Distribution of the Working Share of the Oil and Gas Production Tax Under Current and Proposed Law</b>				
FY	Account	Current Law	Proposed Law	Difference
2006 (Qtrs 3 & 4)	Board of Oil and Gas Conservation Tax	\$1,772,734	\$1,772,734	\$0
	Allocation to Counties	\$27,467,966	\$45,046,169	\$17,578,203
	Montana Infrastructure Reinvestment	\$0	\$16,462,575	\$16,462,575
	Coal Bed Methane Protection	\$325,202	\$547,269	\$222,068
	Research and Development Grants	\$779,955	\$1,312,557	\$532,601
	Orphan Share	\$779,955	\$1,312,557	\$532,601
	University System	\$700,638	\$1,179,076	\$478,439
	General Fund	\$23,853,413	\$23,679,412	(\$174,001)
	Total	\$55,679,863	\$91,312,349	\$35,632,486
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2007	Board of Oil and Gas Conservation Tax	\$3,595,047	\$3,595,047	\$0
	Allocation to Counties	\$55,569,815	\$91,300,539	\$35,730,724
	Montana Infrastructure Reinvestment	\$0	\$33,365,948	\$33,365,948
	Coal Bed Methane Protection	\$657,802	\$1,109,192	\$451,391
	Research and Development Grants	\$1,577,654	\$2,660,258	\$1,082,604
	Orphan Share	\$1,577,654	\$2,660,258	\$1,082,604
	University System	\$1,417,215	\$2,389,723	\$972,509
	General Fund	\$48,249,473	\$47,992,858	(\$256,615)
	Total	\$112,644,659	\$185,073,824	\$72,429,164

11. The FY 2006 difference in the state share of oil and gas production tax revenue is \$18,054,283  
{ \$16,462,575 + \$222,068 + \$532,601 + \$532,601 + \$478,439 - \$174,001 }.
12. The FY 2007 difference in the state share of oil and gas production tax revenue is \$36,698,441  
{ \$33,365,948 + \$451,391 + \$1,082,604 + \$1,082,604 + \$972,509 - \$256,615 }.
13. The Department of Revenue does not anticipate any additional administrative costs under the provisions of this bill.

## **Fiscal Note Request SB0522, As Introduced**

(continued)

### FISCAL IMPACT:

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
<u>Revenues:</u>		
General Fund (01)	(\$174,001)	(\$256,615)
State Special Revenue (02)		
Montana Infrastructure Reinvestment	\$16,462,575	\$33,365,948
Coal Bed Methane Protection Account	(\$222,068)	(\$451,391)
Research and Development Grants	(\$532,601)	(\$1,082,604)
Orphan Share Account	(\$532,601)	(\$1,082,604)
State University System	(\$478,439)	(\$972,509)

### Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(\$174,001)	(\$256,615)
State Special Revenue (02)		
Montana Infrastructure Reinvestment	\$16,462,575	\$33,365,948
Coal Bed Methane Protection Account	(\$222,068)	(\$451,391)
Research and Development Grants	(\$532,601)	(\$1,082,604)
Orphan Share Account	(\$532,601)	(\$1,082,604)
State University System	(\$478,439)	(\$972,509)

### EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Under proposed law, the allocation to oil and gas producing counties will increase \$17,578,203 in FY 2006, and \$35,730,724 in FY 2007.

### LONG-RANGE IMPACTS:

Increased revenue from the higher tax rates under proposed law would continue unless offset by substantially decreased production. The Montana Infrastructure Reinvestment Account will continue to receive 37% of total tax revenue after distribution of the BOGC tax and the allocation to counties.

### TECHNICAL NOTES:

1. The stripper well exemption definition section (page 4, lines 15-16 of the introduced bill), needs additional language describing how production (bbl/day) is to be calculated. The last sentence of the previous (deleted) section would probably suffice: "Production must be determined by dividing the amount of production from a lease or unitized area for the year immediately preceding the current calendar year by the number of producing wells in the lease or unitized area and by dividing the resulting quotient by 365."
2. The term "stripper well" on page 4, lines 15 and 16, is not defined.
3. The bill proposes two classes of oil production; primary recovery and stripper well exemption. The definition of "primary recovery" is on page 2, line 30, and page 3, line 1. The definition does not state that primary recovery includes all recovery other than stripper exemption recovery.
4. This bill needs to be coordinated with HB194, which has become law. The section referring to the "phased out amount" (page 8, lines 9-10 of SB522) was deleted from law by HB194.